

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

COLUMBIA, SOUTH CAROLINA

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 2004 AND 2003

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

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State of South Carolina



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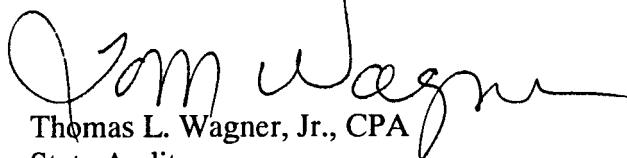
October 5, 2004

The Honorable Mark Sanford, Governor  
and  
Members of the Authority  
South Carolina State Education Assistance Authority  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina State Education Assistance Authority for the fiscal year ended June 30, 2004, was issued by Derrick, Stubbs & Stith, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb



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**INDEPENDENT AUDITORS' REPORT**

To the Members of the Authority  
South Carolina State Education Assistance Authority  
Columbia, South Carolina

We have audited the accompanying financial statements of the Enterprise Fund of the South Carolina State Education Assistance Authority as of and for the years ended June 30, 2004 and 2003 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Enterprise Fund of the South Carolina State Education Assistance Authority and present fairly its financial position as of June 30, 2004 and 2003 and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund of the South Carolina State Education Assistance Authority as of June 30, 2004 and 2003, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of this audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements of the South Carolina State Education Assistance Authority taken as a whole. The accompanying supplementary information in Schedules 1 through 5 is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Derrick, Stubbs & Stith, L.L.P.*

August 25, 2004

## **South Carolina State Education Assistance Authority Management's Discussion and Analysis**

The South Carolina State Education Assistance Authority (Authority) functions to guarantee and provide financing for education loans for students and parents. As a guarantor, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid, and makes appropriate responses to the Secretary. As a provider of financing, the Authority issues bonds to finance education loans.

The Authority was originally created to provide a means of making loans to students in order to enable them to attend eligible institutions, as such terms are defined in the Higher Education Act. Such loan financing has been conducted by the Authority through its Student Loan Finance Program which has been administered by the South Carolina Student Loan Corporation (Corporation) since its inception.

The Corporation and the Authority have entered into Loan Agreements pursuant to the terms of which the Authority has agreed to lend bond proceeds to the Corporation to enable the Corporation to make or acquire education loans. The obligation of the Corporation to repay the finance loans is evidenced by a promissory note of the Corporation and is secured by a pledge under the Loan Agreement.

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's statement of net assets, statements of revenue, expenses and changes in net assets, statement of cash flows, and the notes to financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS:**

•	The Authority's total assets at June 30, 2004 were approximately \$ 761,340,000, which is an increase of approximately \$ 107,378,000 or 16% over June 30, 2003.
•	The Authority's finance loans at June 30, 2004 were approximately \$ 523,549,000, which is an increase of approximately \$ 262,477,000 or 101% over June 30, 2003.
•	The Authority's operating revenue for the fiscal year ended June 30, 2004 was approximately \$ 31,197,000, which is a decrease of approximately \$ 5,578,000 or 15% under the fiscal year ended June 30, 2003.
•	The Authority's interest expense for the fiscal year ended June 30, 2004 was approximately \$ 9,803,000, which is a decrease of approximately \$ 1,497,000 or 13% under the fiscal year ended June 30, 2003.
•	The Authority's total other operating expenses for the fiscal year ended June 30, 2004 were approximately \$ 29,839,000, which is a decrease of \$ 271,000 or 1% under the fiscal year ended June 30, 2003.
•	The Authority's change in net assets for the fiscal year ended June 30, 2004 was approximately \$ (3,999,000), which is a decrease of 180% over the previous fiscal year.

## **OVERVIEW OF THE FINANCIAL STATEMENTS:**

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied on an accrual basis. Under the accrual basis of GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements presented within the financial statements are:

Statements of Net Assets – This statement presents information regarding the Authority's assets, liabilities and net assets. Net assets represent the total assets less the total liabilities. The statement of net assets classifies assets, liabilities and net assets as current, long-term and restricted.

Statements of Revenues, Expenses and Changes in Net Assets – This statement presents the Authority's interest income, cost of funds, operating expenses and changes in net assets for the fiscal year.

Statements of Cash Flows – The Authority's statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, non-capital financing, capital and investing activities.

## **FINANCIAL ANALYSIS OF THE AUTHORITY:**

The Authority's total net assets at June 30, 2004 were approximately \$ 124,459,000, which is a decrease of approximately \$ 3,999,000 or 3% under June 30, 2003. Components of the Authority's balance sheet as of June 30, 2004 and June 30, 2003 were as follows:

	2004	2003	Percentage Increase/(Decrease)
Current Assets	\$ 299,793,897	\$ 441,387,656	-32%
Capital Assets	224,576	94,786	137%
Other Long-Term Assets	460,770,690	210,676,826	119%
Restricted Assets	551,185	1,803,363	-69%
Total Assets	<u>\$ 761,340,348</u>	<u>\$ 653,962,631</u>	16%
Current Liabilities	\$ 54,068,271	\$ 19,012,288	190%
Long-Term Liabilities Payable	582,812,786	506,492,079	15%
Total Liabilities	<u>\$ 636,881,057</u>	<u>\$ 525,504,367</u>	21%
Net Assets:			
Invested in Capital Assets	\$ 224,576	\$ 94,786	137%
Restricted	123,180,027	127,299,947	-3%
Unrestricted	1,054,688	1,063,531	-1%
Total Net Assets	<u>\$ 124,459,291</u>	<u>\$ 128,458,264</u>	-3%
Total Liabilities and Net Assets	<u>\$ 761,340,348</u>	<u>\$ 653,962,631</u>	16%

Please see Note 6 and Note 8 respectively for more detail on capital assets and long-term debt activity. The increase noted above in the Authority's total assets is due to the issuing of bonds and subsequent increase in finance loans. Total assets increased from approximately \$ 653,963,000 at June 30, 2003 to approximately \$ 761,340,000 at June 30, 2004. Finance loans increased over 100% from approximately \$ 261,073,000 at June 30, 2003 to approximately \$ 523,549,000 at June 30, 2004.

Components of the statement of revenues, expenses and changes in net assets for these two fiscal years are as follows:

	<b>2004</b>	<b>2003</b>	<b>Percentage Increase/(Decrease)</b>
Loan Interest Income	\$ 21,541,299	\$ 27,335,721	-21%
Guaranty Agency Income	7,087,387	6,470,719	10%
Investment Interest Income	<u>2,568,682</u>	<u>2,969,013</u>	-13%
Total Operating Revenue	\$ <u>31,197,368</u>	\$ <u>36,775,453</u>	-15%
Interest Expense	\$ <u>9,802,740</u>	\$ <u>11,299,575</u>	-13%
Other Operating Expenses:			
General Administration	3,987,885	3,535,790	13%
External Loan Servicing	3,901,624	5,615,073	-31%
Borrower Incentives	15,488,459	14,759,217	5%
Consolidation & Lender Rebate Fees	3,150,063	3,559,425	-12%
Other Fees	<u>3,310,689</u>	<u>2,640,288</u>	25%
Total Other Operating Expenses	\$ <u>29,838,720</u>	\$ <u>30,109,793</u>	-1%
Total Operating Expenses	\$ 39,641,460	\$ 41,409,368	-4%
Total Non-Operating (Income) Expenses	<u>(4,445,119)</u>	<u>(9,612,697)</u>	-54%
Change in Net Assets	\$ <u>(3,998,973)</u>	\$ <u>4,978,782</u>	-180%

The decrease noted above in the Authority's change in net assets of approximately \$ 8,978,000 under the past year relates primarily to the Authority's borrower incentive programs. By continuing to offer incentives, the Authority has lowered its arbitrage liability by approximately \$ 4,942,000.

The decrease in loan interest income, investment interest income and interest expense during the year ended June 30, 2004 are due to a decline in short term interest rates.

As noted above, the Authority's other operating expenses for the fiscal year ended June 30, 2004 decreased by 1% under the previous fiscal year.

The Authority prepares an annual operating budget that is used as a management control device for tracking the various expenses. Accounting principles generally accepted in the United States of America do not require a comparison of budget to actual expenses for enterprise funds.

Non-operating income decreased approximately \$ 5,168,000 or 54% due to a decrease in the effect of the Authority's borrower incentive programs reducing arbitrage payable.

### **DEBT ADMINISTRATION:**

The Authority has funded student loan notes by issuing tax-exempt bonds. The bonds must be approved by the Authority's and the Corporation's boards prior to being issued. Tax-exempt bonds also must receive an allocation of the State of South Carolina private activity volume ceiling or "cap". In addition, the issues must comply with federal statutes and with the rules and regulations of the United States Treasury Department.

At June 30, 2004, the Authority had \$ 592,010,000 principal amount of bonds payable, an increase of 17% from the \$ 505,610,000 principal amount outstanding at June 30, 2003. Detailed information on the Authority's debt is presented in Note 8 to the financial statements.

All \$ 592,010,000 of Authority debt is publicly held and has long-term credit ratings assigned by Moody's Investors Service (Moody's) and Standard and Poor's (S&P) based on the type of security as shown in the table below. The credit ratings have been maintained, and periodically the ratings have been confirmed in connection with new parity debt issues or extensions of recycling periods.

<u>Credit Rating(s)</u>	<u>Principal Amount</u>	<u>Type of Security</u>
AAA S&P or Aaa Moody's	\$ 538,475,000	Senior Lien
A S&P or A2 Moody's	\$ 53,535,000	Subordinate Lien

### **CONDITIONS AFFECTING FINANCIAL POSTION:**

The Authority has experienced significant growth in all aspects of its operations. With the increase in the volume of student loan applications being processed, the Authority's fiscal year 2005 reflects continued growth. The Authority has added additional staff to handle the additional work associated with this growth. The Authority's budgeted administrative expenses for the fiscal year 2005 reflect the additional costs to be incurred as a result of the increase in staff.

Lower interest rates at June 30, 2004 will result in student loan interest rates being reduced during the fiscal year ending June 30, 2005, which will cause a reduction in loan interest income to the Authority.



SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
STATEMENTS OF NET ASSETS  
ENTERPRISE FUND  
JUNE 30, 2004 AND 2003

<u>ASSETS</u>		<u>2004</u>	<u>2003</u>	<u>LIABILITIES</u>		<u>2004</u>	<u>2003</u>
<u>Current Assets:</u>				<u>Current Liabilities:</u>			
Cash and Cash Equivalents		\$ 194,404,117	\$ 354,481,140	Accounts Payable		\$ 99,390	\$ 258,109
Cash and Cash Equivalents - Restricted		30,937,052	26,529,356	Arbitrage Payable to Federal Government		292,978	539,475
Prepaid Expense				Compensated Absences		173,585	151,471
Receivables:				Due to South Carolina Student Loan Corporation		28,808,236	83,175
Current Portion of Finance Loans		64,800,000	52,000,000	Consolidation Rebate Fee Payable		565,685	
Due from South Carolina Student Loan Corporation		8,214,023	6,282,860	Payable from Restricted Assets:			
Accrued Interest Receivable		142,459	327,650	Current Maturities of Bonds Payable		20,995,000	13,750,000
Federal Reinsurance Receivable		662,732	940,374	Accrued Bond Interest Payable		3,133,397	3,081,775
Loan Processing Issuance Fee Receivable		108,249	164,305	Total Current Liabilities		\$ 54,068,271	\$ 17,864,005
Account Maintenance Fee Receivable		525,265	472,459				
Miscellaneous			189,512	<u>Long-Term Liabilities:</u>			
Total Current Assets		\$ 299,793,897	\$ 441,387,656	Bonds Payable, Less Current Maturities, Deferred Amount			
				of Debt Refunding of \$ 400,683 in 2004 and \$ 766,245 in			
				2003 and Bond Premium and Discounts of \$ 1,725,147 in			
				2004 and \$ 2,072,327 in 2003		\$ 568,889,170	\$ 489,021,428
<u>Long-Term and Other Assets:</u>				Federal Reserve Funds Payable		1,148,283	1,148,283
Receivables:				Arbitrage Payable to Federal Government Payable from			
Finance Loans, Less Current Portion		\$ 458,749,393	\$ 209,072,775	Restricted Funds		12,068,186	16,319,035
Deferred Cost of Issuance of Bonds		2,021,297	1,604,051	Arbitrage Payable to Federal Government, Less			
Restricted Assets:				Current Portion		707,147	1,151,616
Investments		551,185	1,803,363	Total Long-Term Liabilities		\$ 582,812,786	\$ 507,640,362
Total Long-Term and Other Assets		\$ 461,321,875	\$ 212,480,189	Total Liabilities		\$ 636,881,057	\$ 525,504,367
				<u>Net Assets:</u>			
				Invested in Capital Assets		\$ 224,576	\$ 94,786
				Restricted for:			
				Debt Service:			
Property, Plant & Equipment:				Bond Indentures - Current Debt Service - 1993 Resolution		15,291,437	14,123,446
Furniture and Equipment		\$ 293,220	\$ 114,479	Bond Indentures - Current Debt Service - 2002 Resolution		1,647,639	446,548
Automobile		17,000	11,903	Bond Indentures - 1993 Resolution		75,054,635	81,833,070
Less: Accumulated Depreciation		(85,644)	(31,596)	Bond Indentures - 2002 Resolution		116,669	1,288,125
Total Property, Plant & Equipment		\$ 224,576	\$ 94,786	Other:			
				Federal Government		9,881,700	11,420,622
				Guaranty Agency Operating Account		21,187,947	18,188,136
				Unrestricted		1,054,688	1,063,531
Total Assets		\$ 761,340,348	\$ 653,962,631	Total Net Assets		\$ 124,459,291	\$ 128,458,264

See Notes to Financial Statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
 ENTERPRISE FUND  
 YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>Operating Revenue:</u>		
United States Department of Education:		
Loan Processing and Issuance Fee	\$ 1,899,291	\$ 1,845,167
Account Maintenance Fee	2,259,479	2,017,857
Default Aversion Fee Income	915,929	594,708
Retention on Default Collections (Net of Payments to Federal Government of \$ 3,133,363 in 2004 and \$ 2,817,437 in 2003)	1,968,487	1,976,468
Income From South Carolina Student Loan Corporation:		
Subsidized Interest	2,598,123	3,577,345
Special Allowance	9,662,846	10,032,457
Non-Subsidized Interest	4,222,336	10,218,334
Late Charges	11,750	29,808
Miscellaneous Payments of Student Loans	272	10,257
Reimbursement of Bond Expense	5,045,972	3,467,520
Reinsurance Recoveries	44,201	36,519
Interest/Investment Income	2,665,405	4,113,181
Net (Decrease) in the Fair Value of Investments	(96,723)	(1,144,168)
Total Operating Revenue	\$ <u>31,197,368</u>	\$ <u>36,775,453</u>
<u>Operating Expenses:</u>		
Personnel	\$ 2,896,970	\$ 2,672,464
Contractual	450,000	287,368
General Operating	640,915	575,958
South Carolina Student Loan Corporation for Operating Costs	3,901,624	5,615,073
Bond Interest Expense	9,802,740	11,299,575
Amortization - Deferred Cost of Bond Issuance	152,961	128,828
Default Aversion Fee Expense	915,929	594,708
Loan Fees	3,150,063	3,559,425
Borrower Incentives	15,488,459	14,759,217
Broker/Dealer Fees	1,383,377	1,155,664
Other Fees	858,422	761,088
Total Operating Expenses	\$ <u>39,641,460</u>	\$ <u>41,409,368</u>
<u>Operating Income (Loss)</u>	\$ (8,444,092)	\$ (4,633,915)
<u>Non-Operating Revenues (Expenses):</u>		
Arbitrage Income (Expense)	<u>4,445,119</u>	<u>9,612,697</u>
<u>Change in Net Assets</u>	\$ (3,998,973)	\$ 4,978,782
<u>Net Assets:</u>		
Beginning	<u>128,458,264</u>	<u>123,479,482</u>
Ending	\$ <u><u>124,459,291</u></u>	\$ <u><u>128,458,264</u></u>

See Notes to Financial Statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
STATEMENTS OF CASH FLOWS  
ENTERPRISE FUND  
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Borrowers and U.S. Department of Education	\$ 39,789,114	\$ 7,219,025
Receipts from SCSLC Services Provided	32,292,929	27,341,183
Payments to Suppliers	(41,782,179)	(49,396,787)
Payments to Employees	(2,874,856)	(2,520,993)
Net Cash Provided by Operating Activities	<u>\$ 27,425,008</u>	<u>\$ (17,357,572)</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Finance Loan Advances to South Carolina Student Loan Corporation for Student Loans	\$ (648,162,256)	\$ (526,016,988)
Finance Loan Payments Received from South Carolina Student Loan Corporation	385,685,638	572,786,325
Arbitrage Paid	(496,696)	(1,856,901)
Payment on Bonds Payable	(13,750,000)	(3,400,000)
Payment of Recall of Federal Reserve Funds		(7,421,754)
Proceeds from Issuing Revenue Refunding Bonds for Student Loans	100,150,000	
Costs of Bond Issuance Paid from Refunding Bond Proceeds	(570,207)	
Interest Paid on Revenue Bonds	(9,751,117)	(11,334,756)
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>\$ (186,894,638)</u>	<u>\$ 22,755,926</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Purchase of Capital Assets	<u>\$ (205,749)</u>	<u>\$ (59,100)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received on Investment Securities	\$ 2,850,597	\$ 4,876,223
Purchase of Investments	1,252,178	10,050
Net Increase (Decrease) in Fair Value of Investments Reported as Cash Equivalents	(96,723)	(1,144,168)
Net Cash Provided by Investing Activities	<u>\$ 4,006,052</u>	<u>\$ 3,742,105</u>
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>\$ (155,669,327)</u>	<u>\$ 9,081,359</u>
<u>Cash and Cash Equivalents:</u>		
Beginning	<u>381,010,496</u>	<u>371,929,137</u>
Ending	<u>\$ 225,341,169</u>	<u>\$ 381,010,496</u>

See Notes to Financial Statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
STATEMENTS OF CASH FLOWS  
ENTERPRISE FUND  
YEARS ENDED JUNE 30, 2004 AND 2003

<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in)</u>	<u>2004</u>	<u>2003</u>
<u>Operating Activities:</u>		
Operating Income (Loss)	\$ (8,444,092)	\$ (4,633,915)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Purchase of Student Loans Due to Loan Guarantees	(14,142,618)	(18,846,911)
Payments Received from U.S. Department of Education Under Federal Reinsurance Program	14,420,260	19,122,817
Amortization of Deferred Cost of Bond Issuance	152,961	135,522
Amortization of Deferred Amount on Refunding - Interest Expense	365,562	256,898
Amortization of Premiums and Discounts on Bonds Payable - Interest Expense	347,180	416,339
Interest/Investment Income (Investing Activities Category)	(2,665,405)	(4,113,180)
Depreciation Expense	75,959	25,267
Net (Increase) Decrease in Fair Value of Investments Reported as Cash Equivalents (Investing Activities Category)	96,722	1,144,168
Bond Interest Expense (Noncapital Financing Activities Category)	9,802,739	11,299,575
Changes in Assets and Liabilities:		
(Increase) Decrease in Prepaid Expense		594,696
(Increase) Decrease in Due from South Carolina Student Loan Corporation	(1,931,163)	(3,739,694)
(Increase) Decrease in Loan Processing and Issuance Fee Receivable	56,056	(24,939)
(Increase) Decrease in Account Maintenance Fee Receivable	(52,806)	(42,674)
Increase (Decrease) in Due from Other Funds	279,722	(28,283)
(Increase) Decrease in Miscellaneous Receivables	189,512	(49,240)
Increase (Decrease) in Accounts Payable	(158,719)	(113,027)
Increase (Decrease) in Compensated Absences Liability	22,114	42,472
Increase (Decrease) in Consolidation Rebate Fee Payable	565,685	
Increase (Decrease) in Due to Other Funds	(279,722)	28,283
Increase (Decrease) in Due to South Carolina Student Loan Corporation	28,725,061	(18,831,746)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 27,425,008</u>	<u>\$ (17,357,572)</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Interest Collected on Finance and FISL Loans - Operating Activities	<u>\$ 4,889,296</u>	<u>\$ 10,055,986</u>
Arbitrage Income (Expense) Incurred and Liability Accrued - Non-Capital Financing Activity	<u>\$ 4,445,119</u>	<u>\$ 9,612,739</u>
Principal Amounts of Bonds - Refunded - Non-Capital Financing Activity	<u>\$ 8,150,000</u>	<u>\$ -</u>
Retirement of Fixed Assets - Capital and Related Financing Activity	<u>\$ 21,911</u>	<u>\$ 19,615</u>
Write-off of Accumulated Depreciation Related to Retired Assets - Capital and Related Financing Activity	<u>\$ 21,911</u>	<u>\$ 19,615</u>

See Notes to Financial Statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies:

1.1 Reporting Entity:

The South Carolina State Education Assistance Authority (Authority) is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is a part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976, as amended. The Authority is governed by its members, who under the Act are the members of the State Budget and Control Board (Board). The Board consists of five (5) members by virtue of their position in state government. They are the Governor, Treasurer, Comptroller General, Chairman of Senate Finance Committee and Chairman of South Carolina House of Representatives Ways and Means Committee.

The Authority is considered to be part of the State of South Carolina because of the common Board and its financial accountability over the Authority. The funds of the Authority are included in the Comprehensive Annual Financial Report of the State of South Carolina. The financial statements of the Authority present the financial position, results of operations and cash flows solely of the Authority and do not include any component units, organizations, or other funds of the State of South Carolina.

The Authority discharges its statutory obligations through two distinct programs. The program through which the Authority conducts its guarantee activities is herein referred to as the "Student Loan Insurance Program." The program through which the Authority finances the making of education loans by South Carolina Student Loan Corporation (SCSLC) is herein referred to as the "Student Loan Finance Program."

The Authority was originally created in order to provide a means of making loans to students in order to enable them to attend eligible institutions, as such terms are defined in the Higher Education Act. Such loan financing has been conducted by the Authority through its Student Loan Finance Program which has, since its inception, been administered by SCSLC.

The Authority has been authorized by the State of South Carolina to issue revenue bonds for the purpose of making student loans. The Authority has approved SCSLC as an eligible lender under its program and has designated it as the private, non-profit agency to administer these loans. It is the duty of SCSLC to process applications, make student loans and collect principal, interest, fees and penalties on such loans. Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace, and deferred periods by the U.S. Department of Education. Upon entering the repayment period, the interest is paid by the borrower. Also, the U.S. Department of Education pays SCSLC a special allowance which is based on a variable percentage of the unpaid principal of the loans. This income is a reimbursement to help offset administrative expenses and payments of bonds. SCSLC remits this income along with the principal and interest collected on loans to the Authority as it is received for bonds under the 1993 resolution. Under the 2002 resolution, only a portion is required to be reimbursed as defined by the 2002 bond resolution.

The operations of the Authority are administered by employees of SCSLC. The Authority reimburses SCSLC upon request for the actual operating expenses incurred in the administration of the program in accordance with a previously approved budget. All leases are in the name of SCSLC and the Authority pays its pro rata share based on space occupied, equipment usage, and loan servicing costs.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies (Continued):

1.1 Reporting Entity (Continued):

Neither the Authority nor SCSLC is considered a component unit of the other because each is a legally separate organization and not financially accountable to/for the other.

In May 1978, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing Guaranteed Loans as the guaranty agency for the State under §428(c) of the Higher Education Act. In order to administer its Student Loan Insurance Program effectively, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid, and makes appropriate responses to the Secretary. The Authority is also responsible for initiating policy and performing compliance reviews as required by the Higher Education Act with respect to certain schools participating in the Student Loan Insurance Program.

1.2 Business – Type Activity:

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of each account uses a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenue and expenses.

The Authority's Enterprise Fund, called "Education Assistance Fund", reports the activities to fulfill the entity's authorized purposes of issuing revenue bonds to finance student loans which are handled by South Carolina Student Loan Corporation and guaranteeing guaranteed loans. The Authority's Enterprise Fund is composed of the collection account prior unpledged, 2002 resolution, 1993 resolution, agency operating account, and the federal student loan reserve account. These accounts, except for the federal student loan reserve account, agency operating account and collection account prior unpledged, constitute pledged income for the liquidation of outstanding bonds after transfers for operations.

The Authority reports net assets reserved for current debt service as the accrued interest plus ten months of the outstanding bond principal due as of year end as required by the bond indentures (see Note 7). Under the 1993 Bond Resolution, restricted for bond indentures represents net assets for future debt service and includes six months interest to become due on the principal amount or three percent of the outstanding bond principal as specified under each bond series plus principal and interest collected on student loans not yet required to meet current debt service or used to make student loans. Under the 2002 Bond Resolution, restricted for bond indentures represents net assets for future debt service and includes one percent (1%) of the outstanding bond principal as specified under each bond series plus principal and interest allocated on student loans not yet required to meet current debt service. Under the bond resolutions, the restricted for bond indentures also includes one to four months projected operating expenses and any unamortized costs of issuances. The unrestricted is the residual equity not legally reserved for bond indentures.

The 2002 and 1993 resolution accounts each include a sinking account that is used to deposit the proceeds from the sale of bonds and collections on loans including federal interest and income from SCSLC which, as lender, bills the Department of Education directly. All investment income on investments in the debt reserve part of the sinking account is recorded in the sinking account as required by the bond indentures. The sinking account is used to make transfers to the debt reserve and loan accounts.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies (Continued):

1.2 Business – Type Activity (Continued):

The 2002 and 1993 resolution accounts each include a debt reserve account that is a part of the sinking account. Simultaneously with the issuance and delivery of any series of bonds, the Authority is required to deposit monies equal to the debt reserve requirements, based on a percentage of outstanding bonds, into the debt reserve account. These requirements include the forward funding of the debt service monies necessary to make debt service account interest, principal and cumulative sinking fund payments when due and payable. The current debt service account must contain accrued interest payable and a portion of the outstanding bond principal as of June 30, as required in the bond indentures. The balance of the account for future debt service consists of a portion of the original bond issue and a portion of the outstanding balance.

The 2002 and 1993 resolution accounts each include a loan account that is used to deposit bond proceeds which are transferred from the sinking account for the purpose of making loans and paying the cost of issuance of bonds. Other transfers from the sinking account are deposited into the loan account to reimburse monies which have been transferred to SCSLC for operations.

The Collection Account Prior Unpledged collects all payments on loans on behalf of the Authority and SCSLC. The account is required to disburse to each Authority account and to SCSLC by the tenth of each month for the prior month.

The Federal Student Loan Reserve Account is used to account for activity as required by the 1998 reauthorization of the Higher Education Act. This account is used to account for investment income and insurance premiums withheld from borrower's loans. The Authority has not charged insurance premiums for loans guaranteed since March 1, 1999; however, the Authority reserves the right to reinstate such charges at such times and in such lawful amounts as it deems appropriate. Amounts in the Federal Student Loan Reserve Account can only be used to pay lender claims on defaulted loans and to disburse default aversion fees to the Agency Operating Account for default aversion activities. Upon payment to lenders for defaulted loans, these funds are then reimbursed to the Federal Student Loan Reserve Account by the U. S. Department of Education at a percentage determined by the Authority's default rate. Payments to lenders for defaulted loans are recorded as Federal Reinsurance Receivables. Reimbursement by the U. S. Department of Education reduces the Federal Reinsurance Receivable. The Authority has always received the maximum reimbursement allowable under the Supplemental Guarantee Agreement and does not anticipate falling below this level (See Note 3).

The Agency Operating Account is used to account for all loan processing and issuance fees, account maintenance fees, default aversion fees, and the retention on default collections. The U. S. Department of Education pays all of the fees except the default aversion fees reimbursed by the Federal Student Loan Reserve Account. The loan processing issuance fee was equal to 0.65% of the total principal amount of loans originated during the first quarter of the fiscal year. As of October 1, 2003 the loan processing fee changed to 0.40%. The account maintenance fee is equal to 0.10% of the average original principal balance of loans outstanding for the fiscal year. The default aversion fee is equal to one percent of the principal and interest of a loan upon which default aversion activity was performed. This is reimbursed from the Federal Student Loan Reserve Account. Should this loan subsequently default, the default aversion fee is refunded back to the Federal Student Loan Reserve

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies (Continued):

1.2 Business – Type Activity (Continued):

Account. Retention on Default Collections is reported by the Authority directly to the Department of Education for services it performs in its role as guarantor. The Authority recognizes income related to a specified portion (23% as of October 1, 2003 and 24% prior to October 1, 2003) of collections adjusted for certain items made on behalf of the Federal government on defaulted loans. The remaining balance of collections is remitted to the Federal government. The total cumulative value at June 30, 2004 and 2003 of all defaulted student loans purchased by the Authority is \$ 143,339,523 and \$ 129,196,905, respectively (See Note 3). The Authority records the purchased defaulted loans as assets, but only recognizes its portion of the share of any recoveries in the year of collection. Funds in the Agency Operating Account can only be used for application processing, loan disbursement, enrollment and repayment status management, permitted default prevention activities, default collection activities, school and lender training, compliance monitoring and other student financial aid related activities as determined by the Secretary and for voluntary irrevocable transfers to the Federal Student Loan Reserve Account. Except for funds transferred from the Federal Student Loan Reserve Account, the Agency Operating Account is considered to be the property of the guaranty agency.

1.3 Basis of Accounting:

The accrual basis of accounting is used for the Education Assistance Fund. Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when incurred. Investment income is recorded at stated interest rates with no amortization of premiums or discounts. Net increase (decrease) in the fair value of investments include unrealized and realized gains and losses. Bond payable premiums and discounts are amortized over the life of the bonds and netted against interest expense. The Authority applies all Government Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements. In accordance with GASB Statement 20, the Authority has elected not to implement FASB Statements 103 and after.

1.4 Budget and Budgetary Accounting:

Certain expenses for the Enterprise Fund are budgeted as a management control device. However, the cost of issuing bonds, SCSLC expenses, interest expense, reinsurance and other fees and revenue are not budgeted. Accounting principles generally accepted in the United States of America do not require a comparison of budget to actual expenses.

These budgets are approved by the SCSLC Board and the State Treasurer and are not adopted by the Legislature or printed in the Appropriations Act. The Authority is subject to State laws and regulations.

Expenditures in excess of the budgeted amounts are not in violation of State laws. However, these are approved by the Board.



SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies (Continued):

1.5 Compensated Absences:

Depending on length of employment, employees earn annual vacation at the rate of twelve (12) to twenty-five (25) days per year. Employees are expected to use at least one week (5 consecutive days) each year. An employee may not carry forward more than five (5) vacation days to the next year without the supervisor's permission. Earned, but unused, annual vacation will be paid when an employee terminates employment except when this termination is involuntary or inadequate notice is given. Sick leave is earned at the rate of 7 to 10 days per year depending on length of employment. An employee may not carry forward more than sixty (60) sick days to the next year without the supervisor's approval. Employees are not paid for earned, but unused, sick days upon termination of employment. The Authority calculates the gross compensated absences liability based on recorded balances of unused vacation leave, compensatory holiday, and overtime leave for those specific SCSLC employees who administer Authority operations. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded. The net change in the liability is recorded in the current year in the personnel expenses.

1.6 Nonexchange Transactions:

The Authority adheres to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* which standardizes the accounting and financial reporting for nonexchange transactions involving financial or capital resources. For the Authority, there generally are two types of nonexchange transactions, *Government-mandated nonexchange transactions* which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose and *voluntary nonexchange transactions* which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement. The Authority recognizes nonexchange transactions when they are both measurable and probable of collection. For *Government-mandated nonexchange transactions* and *voluntary nonexchange transactions*, the Authority recognizes assets when all applicable eligibility requirements are met or resources are received, whichever is first, and revenue when all applicable eligibility requirements are met.

1.7 Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.8 Cash and Cash Equivalents:

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on deposit in banks, cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and cash invested in various instruments by the Bank of New York.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies (Continued):

1.8 Cash and Cash Equivalents (Continued):

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit and collateralized repurchase agreements. Most State agencies participate in the cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities including those that are classified as restricted having a maturity at the time of purchase of three months or less.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State.

The Authority records and reports its deposits in the general deposit account at cost. The Authority reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained by the Authority. Interest earnings are allocated based on the percentage of an Authority's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments in the pool. Realized gains and losses are allocated monthly and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the Authority's percentage ownership in the pool.

Although the State's internal cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 2.

For the Authority's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less.

1.9 Amortization of Deferred Cost of Issuance of Bonds and Bond Premiums and Discounts:

Cost of issuance of bonds is being amortized over the lives of the bond issues on a straight-line basis and are included in operating expenses. Bond premiums and discounts are amortized over the terms of the bonds using the straight-line method and are recorded as an addition or deduction to interest expense.

1.10 Deferred Amount of Debt Refunding:

The deferred amount of debt refunding is the difference between the reacquisition price and the net carrying amount of the old debt. Reacquisition price is the amount required to repay previously issued debt in a refunding transaction and it includes principal of the old debt plus any call premium. The net carrying amount is the amount due at maturity, adjusted for any

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

1. Summary of Significant Accounting Policies (Continued):

1.10 Deferred Amount of Debt Refunding (Continued):

unamortized premium or discount and issuance costs related to the old debt. The amount is being amortized as a component of interest expense on the straight line basis over the shorter of the remaining life of the old debt or the life of the new debt. It is being charged to operations using the effective - interest method. This treatment applies to debt refunding after July 1, 1994.

1.11 Risk Management:

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority pays insurance premiums to certain other State agencies to cover risks that may occur in normal operations and employee health insurance. Several State funds accumulate assets and the State itself assumes all risks for claims of State employees for unemployment compensation benefits. In addition, the Authority pays premiums to the State's Insurance Reserve Fund which accumulates assets to cover general tort claims.

Premiums for worker's compensation, property insurance including fixed assets, group life and fidelity bonds are paid to private insurance carriers and the Authority's coverage is subject to the limits of these policies. The expense for these items is charged to the enterprise fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

1.12 Property and Equipment:

Furniture, equipment and automobiles costing over \$ 5,000 are capitalized at cost when purchased. Depreciation has been provided using the straight-line method over useful lives of three to ten years for furniture and equipment and three years for automobiles and computers.

1.13 Operating and Non-Operating Revenues/Expenses:

Balances classified as operating revenues and expenses are those which comprise the Authority's principle ongoing operations. Since the Authority's operations are similar to those of any other finance company, all revenues and expenses are considered operating except the recall of Federal Reserve Funds and arbitrage expense.

1.14 Applying Restricted or Unrestricted Resources:

The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. Deposits and Investments:

All deposits and investments of the Authority are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain of the Authority's deposits and investments are deposited with the Bank of New York or Wachovia Bank, N.A. as authorized by the State Treasurer. Deposits and investments of \$ 193,302,303 and \$ 380,993,434 at June 30, 2004 and 2003, respectively, are held by the Bank of New York as trustee or custodian for the Authority.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

2. Deposits and Investments (Continued):

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

	2004	2003		2004	2003
<u>Statement of Net Assets</u>			<u>Footnotes</u>		
Cash and Cash Equivalents	\$ 194,404,117	\$ 354,481,140	Cash at Wachovia Bank	\$ 32,611	\$ 57,907
			Deposits - STO ICM Pool	32,557,440	1,762,518
			Investments:		
Restricted:			Bank Repurchase Agreements	61,493,395	1,034,368
Cash and Cash Equivalents	30,937,052	26,529,356	U.S. Treasury Notes	98,740,142	10,813,664
Investments	551,185	1,803,363	U.S. Agency Bonds	7,713,675	369,145,402
			Commercial Notes	5,092,541	
			Money Market Funds	20,262,550	
Total	<u>\$ 225,892,354</u>	<u>\$ 382,813,859</u>	Total	<u>\$ 225,892,354</u>	<u>\$ 382,813,859</u>

2.1 Deposits:

State law requires full collateralization of all State Treasurer balances. The State Treasurer must correct any deficiencies in collateral within seven (7) days. At June 30, 2004 and 2003, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

At June 30, 2004 and 2003, Wachovia Bank, N.A. carried a bank balance at \$ 32,611 and \$ 57,907, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance up to \$ 100,000.

All other deposits are in the State Treasurer Internal Cash Management Account. The value of the Authority's investment in the State's Internal Cash Management Account is determined based on the fair value of the Pool's underlying portfolio.

The reported amount and fair value of deposits held for the various accounts of the Authority were as follows at June 30, 2004 and 2003:

	2004	2003
Collection/Unpledged Prior	\$ 32,555,879	\$
1993 Resolution	1,561	205,425
Agency Operating Account		802,792
Federal Student Loan Reserve Account		754,301
Total	<u>\$ 32,557,440</u>	<u>\$ 1,762,518</u>

2.2 Investments:

Investments are valued and reported at fair value based on quoted market prices when available or otherwise at the amount at which the instrument could be exchanged in a current transaction. Investment income on investments is recorded when earned. Purchases and

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

2. Deposits and Investments (Continued):

2.2 Investments (Continued):

sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis.

The reported amount and fair value of investments held for the various accounts of the Authority were as follows at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
<u>Collection/Unpledged Prior Account – Bank of New York</u>		
Money Market Funds	\$ 1,052,907	\$ -
<u>1993 Resolution Account – Bank of New York:</u>		
U.S. Treasury Notes	\$ 79,929,300	\$ 1,069,063
U.S. Agency Bonds	734,300	341,016,844
Bank Repurchase Agreements	61,424,172	1,034,368
Total	\$ 142,087,772	\$ 343,120,275
<u>2002 Resolution Account - Bank of New York:</u>		
U.S. Treasury Notes	\$ 18,810,842	\$ 9,744,601
Bank Repurchase Agreements	69,223	
Total	\$ 18,880,065	\$ 9,744,601
<u>Agency Operating Account – Bank of New York:</u>		
U.S. Agency Bonds	\$ 5,481,563	\$ 17,291,301
Commercial Notes	5,092,541	
Money Market Funds	10,249,189	
Total	\$ 20,823,293	\$ 17,291,301
<u>Federal Student Loan Reserve Account – Bank of New York:</u>		
U.S. Agency Bonds	\$ 1,497,812	\$ 10,837,257
Money Market Funds	8,960,454	
Total	\$ 10,458,266	\$ 10,837,257
Totals	\$ 193,302,303	\$ 380,993,434

Investments are restricted by bond indentures to direct obligations of (or obligations guaranteed by) the United States of America, interest bearing time deposits, certificates of deposit or repurchase agreements fully secured by direct obligations of the United States of America, and obligations of certain Federal Agencies and instrumentalities.

The investments at Bank of New York are categorized to give an indication of the level of the custodial credit risk assumed by the Authority at June 30, 2004 and 2003. Custodial credit risk is the risk that the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counter party to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

2. Deposits and Investments (Continued):

2.2 Investments (Continued):

broker or dealer, or by its trust department or agent but not in the Authority's name. All investments at Bank of New York are Category 1 type investments.

Due to higher cash flows at certain times, the Authority's investments in repurchase agreements, U.S. Agency Bonds and Notes fluctuated. The maximum amounts held in U.S. Agency Bonds during the years ending June 30, 2004 and 2003 were \$ 369,145,402 and \$ 378,890,973, respectively. The maximum amounts of U.S. Treasury notes held during the years ending June 30, 2004 and 2003 was \$ 98,740,142. The maximum amounts held in bank repurchase agreements were \$ 61,493,394 at June 30, 2004 and \$ 1,034,368 at June 30, 2003. The maximum amounts held in commercial notes were \$ 5,092 and \$ 0 at June 30, 2004 and 2003, respectively. The maximum amounts held in money market funds were \$ 20,262,551 and \$ 0 at June 30, 2004 and 2003, respectively. The investment types listed above included all investment types in which monies were held throughout the fiscal years ended June 30, 2004 and 2003.

3. Student Loans, Federal Family Education Loans (FFEL), and Federal Reinsurance of FFEL Loans:

In 2004 and 2003, these loans bear interest at a fixed rate of 2.875% to 12% or an annual variable rate of 2.82% to 4.37%, which is reset each July 1 and which is equal to the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.7 to 3.25 percent with a cap on the rate of 8.25 to 12.00 percent. These loans are repayable over a period of five (5) to thirty (30) years with a minimum payment of \$ 360 or \$ 600 per year. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a half-time basis in an eligible institution.

Loans disbursed for the 1978-79 Academic year and subsequent years appear on SCSLC's financial statements. These loans are guaranteed by the Authority and reinsured by the U.S. Department of Education. (See Note 11.) Up until March 1, 1999, the Authority charged loan recipients an amount equal to one-half to 1% of the principal amount as an insurance premium to remedy defaults on guaranteed student loans. The Authority can start charging an insurance premium at any time, but current funds are deemed sufficient to pay defaults. Since the Authority entered into a Supplemental Guaranty Agreement with the U.S. Department of Education in 1978, under which the Federal government reinsures the Authority for amounts paid in connection with defaulted loans, the Authority has received cumulative payments to date of \$ 142,676,791 and \$ 128,256,531 as of June 30, 2004 and 2003, respectively, of federal reinsurance. The percentage of the defaulted claims to be reimbursed by the federal government is dependent upon the Authority's default rate experience, as follows:

<u>Claims Rate</u>	<u>Federal Payment for Loans made prior to October 1, 1993</u>	<u>Federal Payment for Loans made on or after October 1, 1993</u>	<u>Federal Payment for Loans made on or after October 1, 1998</u>
0% up to 5%	100% of claims	98% of claims	95% of claims
5% up to 9%	100% of all claims up to 5%; and 90% of claims 5% and over	98% of all claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5%; and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% and over up to 9%; and 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% and over up to 9%; and 78% of claims 9% and over	95% of claims up to 5%; 85% of claims 5% and over up to 9%; and 75% of claims 9% and over

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
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3. Student Loans, Federal Family Education Loans (FFEL), and Federal Reinsurance of FFEL Loans (Continued):

The calculation of the default rate is based upon the claims paid in a given year as of the Federal government's fiscal year ending September 30 to the total loans in collection on the previous October 1. Based upon data maintained by the Authority, the default rate in the period ended September 30, 2003 and 2002 was approximately .73% and .96%, respectively. The Authority expects the default rate to remain about 1%.

4. Note Receivable Finance Loans:

Each bond resolution of the Authority requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a loan agreement, assignment of collateral and assignment of revenues between the two parties, with the student loans providing security to the bond trustee. Advances to SCSLC from the Authority's 1993 General Resolution are made pursuant to a loan agreement dated August 31, 1993, and advances to SCSLC from the Authority's 2002 General Resolution are made pursuant to a loan agreement dated June 12, 2002. Each loan is calculated as set forth in the respective loan agreements. The finance loans as of June 30, 2004 and 2003 are as follows:

Authority Bond Resolution	2003			2004			
	Balance 6/30/2002	Loans Accrued/ Disclosed or Sold	Payments Received	Balance 6/30/2003	Loans Accrued/ Disclosed or Sold	Payments Received	Balance 6/30/2004
1993	\$ 200,369,224	\$ 505,000,000	\$ 553,621,325	\$ 151,747,899	\$ 557,000,000	\$ 384,852,305	\$ 323,895,594
2002	107,472,927	21,016,988	19,165,039	109,324,876	91,162,256	833,333	199,653,799
Total	<u>\$ 307,842,151</u>	<u>\$ 526,016,988</u>	<u>\$ 572,786,364</u>	<u>\$ 261,072,775</u>	<u>\$ 648,162,256</u>	<u>\$ 385,685,638</u>	<u>\$ 523,549,393</u>

5. Amounts Due from/to SCSLC:

The \$ 8,214,023 and \$ 6,282,860 at June 30, 2004 and 2003, respectively, amount due from SCSLC represents funds due for income earned, but not yet received, from the U.S. Department of Education and borrowers thus not remitted to the Authority and funds collected on behalf of the Authority. The Authority also owes the SCSLC for funds collected on their behalf of \$ 28,808,236 and \$ 83,175 at June 30, 2004 and 2003, respectively. Funds collected on behalf of the SCSLC are required to be paid to the SCSLC by the tenth of each month.

6. Capital Assets:

The following is a summary of changes in capital assets for fiscal years ended June 30, 2004 and 2003:

	Balance 6/30/2002	Additions	Deletions	Balance 6/30/2003	Additions	Deletions	Balance 6/30/2004
<u>Cost:</u>							
Furniture & Equipment	\$ 74,994	\$ 59,100	\$ (19,615)	\$ 114,479	\$ 188,749	\$ (10,008)	\$ 293,220
Automobiles	11,903	-	-	11,903	17,000	(11,903)	17,000
Total	<u>\$ 86,897</u>	<u>\$ 59,100</u>	<u>\$ (19,615)</u>	<u>\$ 126,382</u>	<u>\$ 205,749</u>	<u>\$ (21,911)</u>	<u>\$ 310,220</u>
<u>Accumulated Depreciation:</u>							
Furniture and Equipment	\$ (19,616)	\$ (19,692)	\$ 19,615	\$ (19,693)	\$ (71,237)	\$ 10,008	\$ (80,922)
Automobiles	(6,329)	(5,574)	-	(11,903)	(4,722)	11,903	(4,722)
Less, Accumulated Depreciation	<u>\$ (25,945)</u>	<u>\$ (25,266)</u>	<u>\$ 19,615</u>	<u>\$ (31,596)</u>	<u>\$ (75,959)</u>	<u>\$ 21,911</u>	<u>\$ (85,644)</u>
Net Capital Assets	<u>\$ 60,952</u>	<u>\$ 33,834</u>	<u>\$ -</u>	<u>\$ 94,786</u>	<u>\$ 129,790</u>	<u>\$ -</u>	<u>\$ 224,576</u>

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7. Loan Guarantees:

As an incentive for the states to set up state guaranty agencies, the U.S. Department of Education has made certain funds available to the states to assist in establishing a federal student loan reserve account which replaced the loan guarantee account by the 1998 Reauthorization of the Higher Education Act (Act) on July 1, 1998. Maintenance of the federal student loan reserve account will depend upon possible further Federal and State advances, investment income, insurance premium on student loans if collected, and reinsurance payments from the U.S. Department of Education. Prior to July 1, 1998, the account accumulated retention of default collections, administrative cost allowance and supplemental preclaims assistance. The Act stopped this (See Note 14). The U.S. Department of Education reserved the right to request repayment of advances under the Advance Agreement within such period as it deemed appropriate in light of the maturity and solvency of the Authority's federal student loan reserve account. As of June 30, 2004 and 2003, the Authority has reimbursed all such advances to the U.S. Department of Education that they have requested.

The 1993 Amendments to the Higher Education Act, Section 422 of the Higher Education Act of 1965, as amended, provides that the federal student loan reserve account of all guaranty agencies under the Act shall be considered the property of the United States to be used in connection with the Federal Family Education Loan Programs and Consolidation Loan Programs under Parts B and C of Title IV of the Act. The Act further provides that the Secretary may direct a guaranty agency to return to the Secretary a portion of its federal student loan reserve account which the Secretary determines is unnecessary to pay the program expenses and contingent liabilities of the guaranty agency. (See Note 14).

Effective July 1, 1998, the Act allowed a new account called the Agency Operating Account to be established. As described in Note 1.2, this account accumulates funds to operate the guaranty agency.

8. Bonds and Other Payable and Restricted Assets:

The Authority issues Guaranteed Student Loan Revenue Bonds as needed to finance student loans and re-lends bond proceeds to the South Carolina Student Loan Corporation (See Note 4). The finance loans to the South Carolina Student Loan Corporation are secured by loans funded by bond proceeds, related revenue from such loans, investments in accounts and earnings thereon. The bond resolutions permit the Authority to accumulate borrowers' payments during the year to pay principal and interest on bonds as due. The bonds do not constitute a debt, liability or obligation of the State of South Carolina or a pledge of the faith and credit of the State of South Carolina. As of June 30, 2004, the current debt service account must contain assets equal to the accrued interest payable plus ten months of the outstanding bond principal due the following September 1 plus four (4) months principal due following March 1 as required in the bond indentures. As of June 30, 2004 and 2003, the Authority was required to have assets deposited in the current debt service account of \$ 16,939,076 and \$ 14,569,994, respectively. The Authority has more on deposit in investments recorded in the Debt Reserve Account than the current debt service requirement in 2004 and 2003. Restricted assets in the debt reserve account are \$ 31,488,237 in 2004 and \$ 28,332,719 in 2003, and will be used to pay future debt service.

The Student Loan Revenue bonds as of June 30, 2004 and 2003 follow:



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8. Bonds and Other Payable and Restricted Assets (Continued):

<u>Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Outstanding 6/30/2002</u>	<u>Issued (Retired) During FY 03</u>	<u>Balance Outstanding 6/30/2003</u>	<u>Issued (Retired) During FY 04</u>	<u>Balance Outstanding 6/30/2004</u>
8/31/1993	99,495,000	3.50-5.55%	9/1/96-2008	\$ 40,365,000	\$	40,365,000	\$ (11,250,000)	\$ 29,115,000
8/31/1994	86,845,000	4.75-6.30%	9/1/96-2014	70,735,000	(3,400,000)	67,335,000	(2,500,000)	64,835,000
8/30/1995	62,055,000	5.00-6.00%	9/1/99-2015	55,010,000		55,010,000		55,010,000
6/17/1998	49,850,000	Auction	9/1/05-2033	49,850,000		49,850,000		49,850,000
6/16/1999	67,300,000	Auction	9/1/07-2019	67,300,000		67,300,000		67,300,000
6/29/2000	59,050,000	Auction	3/1/05-2020	59,050,000		59,050,000		59,050,000
6/20/2001	49,200,000	Auction	3/1/05-2021	49,200,000		49,200,000		49,200,000
6/12/2002	117,500,000	Auction	3/1/05-2022	117,500,000		117,500,000		117,500,000
8/20/2003	100,150,000	Auction	9/1/05-2023				100,150,000	100,150,000
				<u>\$ 509,010,000</u>	<u>\$ (3,400,000)</u>	<u>\$ 505,610,000</u>	<u>\$ 86,400,000</u>	<u>\$ 592,010,000</u>

The 1994, 1995, 1998, 1999, 2000, 2001, 2002 and 2003 bond issues include auction rate bonds totaling \$ 525,000,000. The interest rate on these bonds varies every thirty-five days depending on auction rate bond markets. The effective interest rates for 2004 and 2003 fiscal years have been approximately 1.1% and 1.3%, respectively. The maximum interest rate is 12%. Future interest payment projections are based upon the weighted average rate of 2.27% at June 30, 2004.

Optional redemption options are available for certain of the various outstanding bonds. The Authority's auction rate bonds can be optionally redeemed in full on any auction date without any call premium due. Certain of the Authority's fixed rate bonds can be optionally redeemed from September 1, 2003 to August 31, 2006 depending on the series with a call premium of 1% to 2% of the principal redeemed. Each of the Authority's remaining fixed rate bonds may be redeemed on and after September 1, 2006 with no call premiums.

The changes in debt for the years ending June 30, 2004 and 2003 follow:

<u>Long-Term Liabilities</u>	<u>6/30/2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2004</u>	<u>One Year</u>
Bonds Payable	\$ 509,010,000	\$	\$ (3,400,000)	\$ 505,610,000	\$ 100,150,000	\$ (13,750,000)	\$ 592,010,000	\$ 20,995,000
Compensated Absences Payable	108,999	148,200	(105,728)	151,471	158,400	(136,286)	173,585	173,585
Arbitrage Payable to Federal Government	29,479,766		(11,469,640)	18,010,126		(4,941,815)	13,068,311	292,978
Deferred Amount of Debt Refunding	(1,023,142)		256,898	(766,244)		365,562	(400,683)	(205,204)
Unamortized Bond Revenues Retirement	(2,488,666)		416,339	(2,072,327)		347,180	(1,725,147)	(288,167)
Total	<u>\$ 535,086,957</u>	<u>\$ 148,200</u>	<u>\$ (14,302,131)</u>	<u>\$ 520,933,026</u>	<u>\$ 100,308,400</u>	<u>\$ (18,115,359)</u>	<u>\$ 603,126,066</u>	<u>\$ 20,968,192</u>

The annual requirements to retire these bonds as of June 30, 2004 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 20,995,000	\$ 13,576,526	\$ 34,571,526
2006	48,035,000	14,174,902	62,209,902
2007	3,745,000	13,527,132	17,272,132
2008	37,465,000	12,572,564	50,037,564
2009	95,470,000	10,321,871	105,791,871
2010	56,100,000	8,693,140	64,793,140
2011		7,811,450	7,811,450
2012		7,811,450	7,811,450
2013		7,811,450	7,811,450
2014		7,811,450	7,811,450
2015	52,050,000	6,599,116	58,649,116

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8. Bonds and Other Payable and Restricted Assets (Continued):

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 29,900,000	\$ 5,746,794	\$ 35,646,794
2017		5,633,523	5,633,523
2018		5,633,523	5,633,523
2019	23,700,000	5,453,956	29,153,956
2020	20,000,000	4,943,288	24,943,288
2021	30,000,000	4,412,922	34,412,922
2022	79,000,000	3,359,765	82,359,765
2023	92,000,000	1,989,155	93,989,155
2024		80,692	80,692
2025		80,692	80,692
2026		80,692	80,692
2027		80,692	80,692
2028		80,692	80,692
2029		80,692	80,692
2030		80,692	80,692
2031		80,692	80,692
2032		80,692	80,692
2033	3,550,000	53,794	3,603,794
	<u>\$ 592,010,000</u>	<u>\$ 148,663,999</u>	<u>\$ 740,673,999</u>

On August 20, 2003, the Authority had outstanding bonds of \$ 505,610,000 and then issued \$ 100,150,000 in Guaranteed Student Loan Revenue and Refunding Bonds with a variable auction interest rate which is capped at 12.0 percent to refund \$ 8,150,000 of outstanding 1993 and 1994 Bonds with an average interest rate of 5.2 percent and to provide financing for student loans. The gross proceeds of \$ 100,150,000 after payment for issuance costs (\$ 570,207), certain deposits to funds (\$ 1,628,458) and purchase of new student loans (\$ 89,801,335) were used to fund an irrevocable trust with an escrow agent to provide remaining debt service payments on the old bonds on September 1, 2003. As a result, these bonds are considered to be defeased and the liability for these bonds has been removed from bonds payable. The advance refunding resulted in no difference between the reacquisition price and the net carrying amount of the old debt. The Authority completed the refunding to have bonds under the 2002 bond resolution which has lower reserve requirements and allows the financing of alternative or non-federal loans. The refunding increases its total debt payments by \$ 1,320,337 over the next four (4) years and obtains an economic loss (difference between the present values of the old and new debt service payments) of \$ 33,619. Defeased bonds in the amount of \$ 8,150,000 were paid in full on September 1, 2003.

The deferred amount of debt refunding at June 30, 2004 and 2003 is \$ 400,683 and \$ 766,245, respectively. The amount of the unamortized bond discounts at June 30, 2004 and 2003 is \$ 1,725,147 and \$ 2,072,327, respectively.

9. Paul Douglas Teacher Scholarship Program:

The Authority administers the Paul Douglas Teacher Scholarship Program (formerly the Congressional Teacher Scholarship Program). This is a federally funded scholarship program designed to attract bright high school students and encourage them to enter the field of teaching. As of June 30, 1995, the federal government has suspended the loan program and the Authority will reimburse all funds collected for the program.

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9. Paul Douglas Teacher Scholarship Program (Continued):

During the fiscal years ended June 30, 2004 and 2003, collections were \$ 33,661 and \$ 59,149, respectively, from repayments by participants. The Authority repaid these amounts to the Federal Government during the years ended June 30, 2004 and 2003 due to suspension of the program. Any repayments not repaid to the Federal Government are recorded as a liability.

10. Related Party Transactions:

The Authority has significant transactions with the State of South Carolina and SCSLC. Services received at no cost from State Agencies include maintenance of certain accounting records from the Comptroller General, investment and banking functions from the State Treasurer, legal services from the Attorney General, and grants services from the State Budget and Control Board.

The Authority paid the University of South Carolina \$ 19,081 and \$ 25,000 for the years ended June 30, 2004 and 2003, respectively, for data processing services and the expense is recorded as contractual expenses.

See Note 1.1 regarding transactions with SCSLC.

11. Employee Benefit Plans:

11.1 The Authority provides retirement benefits through the South Carolina Student Loan Corporation Money Purchase Pension Plan for all employees who have completed one year of service and attained age 21. SCSLC has adopted the Branch Banking & Trust Co. (BB&T) Money Purchase Pension Plan, a single employer plan. BB&T is the Trustee of the Plan. The authority, under which benefits provisions are established or amended, is provided in the Plan document as administrated by the Plan Trustee. The Plan issues a stand-alone report annually and may be obtained by writing to the South Carolina Student Loan Corporation, Post Office Box 21487, Columbia, S.C. 29221 or by calling (803) 772-9480. This is a defined contribution plan in which the employer is required to contribute 5.6% of the participant's total annual compensation plus 5.6% of compensation exceeding the Social Security wage base. Contributions are paid monthly. A participant is 20% vested after three years service and 100% vested after seven years. A participant receives normal retirement at age sixty-five. At termination of employment or reaching normal retirement age, the participant has the right to elect to receive all or any portion of his vested benefit derived from employer contributions. Voluntary contributions are not permitted. Under the plan, the portion of an employee's account that has not vested when an employee terminates, called forfeitures, reduces the employer's contribution in the year following the Plan year in which the forfeiture occurs. The total pension expense is fully funded and is included in personnel expenses under the retirement category. The only change made in the Plan during the year ended June 30, 2003 was to add a provision for early retirement. Pension expense, total salary and covered salary are as follows:

	<u>2004</u>	<u>2003</u>
Total Salary	\$ 1,960,481	\$ 1,848,578
Total Covered Salary	1,816,281	1,656,575
Pension Expense (Actual and Required)	102,269	103,544
Percent Pension Expense to Covered Salary	5.63%	6.25%

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

11. Employee Benefit Plans:

- 11.2 The Authority participates in a supplemental retirement plan. The Plan is called the South Carolina Student Loan Corporation Defined Benefit Plan, a single employer plan. The authority under which benefit provisions are established or amended is provided in the Plan document as administered by the Plan Trustee. The Plan is a defined benefit pension plan covering substantially all employees with one year of service and over 21 years of age. The Plan provides benefits based on participant earnings. The benefit formula uses one percent (1%) of the average of the five highest years' pay of each eligible employee multiplied by the number of years of service not to exceed 30 years. The Corporation's funding policy is to make the minimum annual contribution that is actuarially computed by the projected unit credit method required by the Plan. The Authority will contribute the amount billed to them by the Corporation. The Corporation issues a publicly available financial report that includes financial statements and required supplementary information for the South Carolina Student Loan Corporation Defined Benefit Plan. That report may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 21487, Columbia, South Carolina 29221 or by calling (803) 772-9480.

The total required and paid contributions for the years ended June 30, 2004 and 2003 were \$ 244,035 and \$ 256,389, respectively, representing 13.44% and 15.48% of covered salary of \$ 1,816,281 and \$ 1,656,575, respectively. Total salaries for the years ended June 30, 2004 and 2003 were \$ 1,960,481 and \$ 1,848,578, respectively. Contributions are included in the personnel expense category.

- 11.3 The Authority participates in the 403 (b) Defined Contribution Plan established by the South Carolina Student Loan Corporation on November 5, 2002. The Plan provides for a 5% contribution based on the participant's total annual compensation. The total amount contributed under the plan in 2004 was \$ 88,553. All employees are eligible who have completed one year of service and attainment of age 21. Contributions are 100% vested when made. Employees are eligible to make voluntary contributions to the Plan.
- 11.4 Certain health care, dental, long-term disability and life insurance benefits are provided to active employees by various private and state insurers. All full-time and part-time employees who worked at least 32 hours per week are eligible to receive these benefits. Employer contributions applicable to those benefits were \$ 354,417 and \$ 327,803 in 2004 and 2003, respectively, and are recorded as expenses under the personnel expense category, and are paid monthly as billed by insurers.

12. Student Loan Guarantees:

The total approved amount and outstanding balance of student loans that the Authority has under guarantee is as follows at June 30:

	<u>2004</u>	<u>2003</u>
Approved Amount for Loans	\$ 4,180,521,330	\$ 3,523,689,297
Outstanding Balance	1,903,061,100	1,706,762,474

13. Arbitrage:

The Internal Revenue Code (IRC) and arbitrage regulations issued by the IRS require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. Regulations also exist for

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

13. Arbitrage (Continued):

calculating rebate earnings in connection with the accounting for bond proceeds, refunding issues, and proceeds that are commingled with other funds for investment purposes. Rebates are payable every five years from date of bond issue or upon maturity of the bonds, whichever is earlier.

The IRC and U. S. Treasury Regulations permit issuers of qualified student loan tax-exempt obligations to earn no more than 1.5% to 2.0% above the bond yield on the qualified student loans financed with such tax-exempt obligations. For excess earnings on qualified student loans, issuers may elect to pay such excess to the U. S. Treasury or return such excess to the borrowers of qualified student loans financed by the tax-exempt obligations. The Authority has elected to implement a program of borrower benefits in order to return such excess to borrowers and the program resulted in decreasing the liability.

The South Carolina State Treasurer had computations made to determine the liability at June 30, 2004 and 2003. Based on those results, the Authority incurred expense (income) of \$ (4,445,119) for 2004 and \$ (9,612,697) for 2003. This expense is determined using the "Future Value" method of determining cumulative arbitrage liability, as set forth in the U.S. Treasury Regulations and is based on cash flows created by investment, sale, maturity of and earnings on gross bond proceeds. As of June 30, 2004 and 2003, the Authority reports \$ 13,068,311 and \$ 18,010,126, respectively, arbitrage liability.

14. Recall of FFELP (Federal Student Loan) Reserve Funds:

The net restricted for federal student loan reserves is the accumulated portion of net assets derived from the Federal Family Education Loan Program (FFELP) guarantee operations of the Authority and may only be used in support of FFELP (See Note 3). On August 5, 1997, the Higher Education Act was amended by the Balanced Budget Act of 1997. Under this amendment, the Secretary of Education (the Secretary) was required to recall \$ 1 billion on September 1, 2002 of FFELP reserve funds. The amount owed by each guarantor was based on the agency's reserves and reserve ratio as of September 30, 1996. For purposes of calculation, the reserves include any Federal Student Loan Reserve Account funds in cash or liquid assets held by the agency. The reserve ratio is defined as the amount of the agency's Federal Student Loan Reserve Account as of September 30, 1996 divided by the original principal amount of all outstanding insured loans on that date. Each agency must transfer its required share to a separate account in five equal annual installments for the federal fiscal years 1998 through 2002. The Authority's estimated amount of prorated share of the \$ 1 billion is approximately \$ 6,830,214 as determined by the U.S. Department of Education. During 2001 - 2002 fiscal year, the Authority's estimated liability was increased by \$ 1,739,823 as determined by the U.S. Department of Education. The \$ 1,739,823 increase resulted in a revised liability of \$ 8,570,037 due to the U.S. Department of Education.

The Authority deposited \$ 1,366,043 each fiscal year beginning December 1997 into a separate account for a total of \$ 6,830,214 at June 30, 2002 and could not use the funds for any purpose without the express written permission of the Secretary. The interest earnings on the account may be used for performing certain default reduction activities as outlined in the Balanced Budget Act of 1997. The funds are reflected in the cash and cash equivalents of the Federal Student Loan Reserve Account. As of June 30, 2003, the reserve funds totaling \$ 7,421,754 were transferred to the U.S. Department of Education leaving a balance due of \$ 1,148,283. The balance due is payable in two equal installments of \$ 574,141 in 2006 and 2007.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

15. Required Information on Business Type Activity for State of South Carolina:

The Authority is only one major enterprise fund which is not required to present government-wide financial statements. However, the State of South Carolina requires business type activities for the State's government-wide Statement of Activities. The required information follows:

	<u>2004</u>	<u>2003</u>
<u>Charges for Services:</u>		
United States Department of Education:		
Loan Processing and Issuance Fee	\$ 1,899,291	\$ 1,845,167
Account Maintenance Fee	2,259,479	2,017,857
Default Aversion Fee Income	915,929	594,708
Retention on Default Collections	1,968,487	1,976,468
Income from South Carolina Student Loan Corporation:		
Subsidized Interest	2,598,123	3,577,345
Special Allowance	9,662,846	10,032,457
Non-Subsidized Interest	4,222,336	10,218,334
Late Charges	11,750	29,808
Miscellaneous Payments of Student Loans	272	10,257
Reimbursement of Bond Expense	5,045,972	3,467,520
Reinsurance Recoveries	44,201	36,519
Total Charges for Services	<u>\$ 28,628,686</u>	<u>\$ 33,806,440</u>
<u>Operating Grants and Contributions:</u>		
Interest/Investment Income	\$ 2,665,405	\$ 4,113,181
Net Increase in the Fair Value of Investments	(96,723)	(1,144,168)
Arbitrage Income (Expense)	4,445,119	9,612,697
Total Operating Grants and Contributions	<u>\$ 7,013,801</u>	<u>\$ 12,581,710</u>
<u>Total Program Revenue</u>	<u>\$ 35,642,487</u>	<u>\$ 46,388,150</u>
<u>Less, Expenses</u>	<u>39,641,460</u>	<u>41,409,368</u>
<u>Change in Net Assets</u>	<u>\$ (3,998,973)</u>	<u>\$ 4,978,782</u>
<u>Net Assets:</u>		
Beginning	<u>128,458,264</u>	<u>123,479,482</u>
Ending	<u>\$ 124,459,291</u>	<u>\$ 128,458,264</u>

16. Reclassifications:

Certain reclassifications were made on 2003 amounts by statement of net assets and/or operating statement accounts for comparability to 2004 with no effect on net income.

17. Subsequent Event:

On August 11, 2004, the Authority issued \$ 174,700,000 in Education Loan Revenue and Refunding Bonds maturing March 1, 2024. The Bonds are issued as Senior Lien Bonds pursuant to a June 11, 2002 General Resolution and a Series Resolution effective as of August 8, 2004. The bonds will be used to finance student loans (See Note 8) fund a reserve, pay issuance costs, and refund \$ 3,000,000 of outstanding bonds on September 1, 2004.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF NET ASSETS BY ACCOUNTS  
ENTERPRISE FUND  
JUNE 30, 2004

ASSETS	Collection Account Prior Unpledged	93 Resolution	02 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
<u>Current Assets:</u>						
Cash and Cash Equivalents	\$ 33,641,397	\$ 114,425,235	\$ 15,055,926	\$ 20,823,293	\$ 10,458,266	\$ 194,404,117
Cash and Cash Equivalents - Restricted		27,112,913	3,824,139			30,937,052
Receivables:						
Current Portion of Finance Loans		40,824,000	23,976,000			64,800,000
Due from South Carolina Student Loan Corporation		4,976,385	3,237,638			8,214,023
Accrued Interest Receivable	1,780	85,321	11,751	35,305	8,302	142,459
Federal Reinsurance Receivable					662,732	662,732
Loan Processing Issuance Fee Receivable				108,249		108,249
Account Maintenance Fee Receivable				525,265		525,265
Due from Other Funds	(3,155,913)	3,345,075		(114,845)	(74,317)	
Total Current Assets	\$ 30,487,264	\$ 190,768,929	\$ 46,105,454	\$ 21,377,267	\$ 11,054,983	\$ 299,793,897
<u>Long-Term and Other Assets:</u>						
Receivables:						
Finance Loans, Less Current Portion	\$	\$ 283,071,594	\$ 175,677,799	\$	\$	\$ 458,749,393
Deferred Cost of Issuance of Bonds		861,243	1,160,054			2,021,297
Restricted Assets:						
Investments		551,185				551,185
Total Long-Term and Other Assets	\$ -	\$ 284,484,022	\$ 176,837,853	\$ -	\$ -	\$ 461,321,875
<u>Property, Plant &amp; Equipment:</u>						
Furniture and Equipment	\$	\$	\$	\$ 287,794	\$ 5,426	\$ 293,220
Automobile				17,000		17,000
Less: Accumulated Depreciation				(80,218)	(5,426)	(85,644)
Total Property, Plant & Equipment	\$ -	\$ -	\$ -	\$ 224,576	\$ -	\$ 224,576
Total Assets	\$ 30,487,264	\$ 475,252,951	\$ 222,943,307	\$ 21,601,843	\$ 11,054,983	\$ 761,340,348

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF NET ASSETS BY ACCOUNTS  
ENTERPRISE FUND  
JUNE 30, 2004

LIABILITIES	Collection Account Prior Unpledged	93 Resolution	02 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
Current Liabilities:						
Accounts Payable	\$ 99,390	\$ 292,978	\$	\$	\$	\$ 99,390
Arbitrage Payable to Federal Government						292,978
Compensated Absences				173,585		173,585
Due to South Carolina Student Loan Corporation				15,735	25,000	28,808,236
Consolidation Rebate Fee Payable	28,767,501					565,685
Payable from Restricted Assets:	565,685					
Current Maturities of Bonds Payable		18,495,000	2,500,000			20,995,000
Accrued Bond Interest Payable		2,348,919	784,478			3,133,397
Total Current Liabilities	\$ 29,432,576	\$ 21,136,897	\$ 3,284,478	\$ 189,320	\$ 25,000	\$ 54,068,271
Long-Term Liabilities:						
Bonds Payable, Less Current Maturities, Deferred						
Amount of Debt Refunding and Bond Premium and						
Discounts	\$	\$ 354,232,287	\$ 214,656,883	\$	\$	\$ 568,889,170
Federal Reserve Funds Payable					1,148,283	1,148,283
Arbitrage Payable to Federal Government,						
Less Current Portion		707,147				707,147
Arbitrage Payable to Federal Government Payable						
from Restricted Funds		8,830,548	3,237,638			12,068,186
Total Long-Term Liabilities	\$ -	\$ 363,769,982	\$ 217,894,521.00	\$ -	\$ 1,148,283	\$ 582,812,786
Total Liabilities	\$ 29,432,576	\$ 384,906,879	\$ 221,178,999	\$ 189,320	\$ 1,173,283	\$ 636,881,057
Net Assets:						
Invested in Capital Assets	\$	\$	\$	\$ 224,576	\$	\$ 224,576
Restricted for:						
Debt Service:						
Bond Indentures - Current Debt Service		15,291,437	1,647,639			16,939,076
Bond Indentures		75,054,635	116,669			75,171,304
Other:						
Federal Government					9,881,700	9,881,700
Guaranty Agency Operating Account				21,187,947		21,187,947
Unrestricted	1,054,688					1,054,688
Net Assets	\$ 1,054,688	\$ 90,346,072	\$ 1,764,308	\$ 21,412,523	\$ 9,881,700	\$ 124,459,291



SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY ACCOUNT  
ENTERPRISE FUND  
YEAR ENDED JUNE 30, 2004

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
<u>Operating Revenue:</u>						
United States Department of Education:						
Loan Processing Issuance Fee	\$	\$	\$	1,899,291	\$	1,899,291
Account Maintenance Fee				2,259,479		2,259,479
Default Aversion Fee Income				915,929		915,929
Retention on Default Collections				1,966,189	2,298	1,968,487
Income from South Carolina Student Loan Corporation:						
Subsidized Interest		2,598,123				2,598,123
Special Allowance		9,662,846				9,662,846
Non-Subsidized Interest		4,222,336				4,222,336
Late Charges		11,750				11,750
Miscellaneous Payments of Student Loans		272	5,045,972			272
Reimbursement of Bond Expense						5,045,972
Reinsurance Recoveries					44,201	44,201
Interest/Investment Income	(9,023)	2,187,964	321,517	197,901	(32,954)	2,665,405
Net Increase (Decrease) in the Fair Value of Investments	179	(65,585)		3,397	(34,714)	(96,723)
Total Operating Revenue	<u>(8,844)</u>	<u>18,617,706</u>	<u>5,367,489</u>	<u>7,242,186</u>	<u>(21,169)</u>	<u>31,197,368</u>
\$	\$	\$	\$	\$	\$	\$
<u>Operating Expenses:</u>						
Personnel	\$	\$	\$	2,896,970	\$	2,896,970
Contractual Services				450,000		450,000
General Operating				630,284	10,631	640,915
South Carolina Student Loan Corporation for Operations		3,901,624				3,901,624
Bond Interest Expense		7,179,302	2,623,438			9,802,740
Amortization - Deferred Cost of Bond Issuance		94,099	58,862			152,961
Default Aversion Fee Expense					915,929	915,929
Loan Fees		3,150,063				3,150,063
Borrower Incentives		15,488,459				15,488,459
Broker/Dealer Fees		859,285	524,092			1,383,377
Other Fees		91,346	40,552			131,898
Total Operating Expenses	<u>-</u>	<u>30,764,178</u>	<u>3,246,944</u>	<u>4,101,954</u>	<u>1,528,384</u>	<u>39,641,460</u>
\$	\$	\$	\$	\$	\$	\$

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY ACCOUNT

ENTERPRISE FUND

YEAR ENDED JUNE 30, 2004

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
Operating Income (Loss)	\$ (8,844)	\$ (12,146,472)	\$ 2,120,545	\$ 3,140,232	\$ (1,549,553)	\$ (8,444,092)
Non-Operating Income (Expenses):						
Arbitrage Income (Expense)	\$ -	\$ 6,536,028	\$ (2,090,909)	\$ -	\$ -	\$ 4,445,119
Income (Loss) Before Transfers Between Accounts	\$ (8,844)	\$ (5,610,444)	\$ 29,636	\$ 3,140,232	\$ (1,549,553)	\$ (3,998,973)
Transfers Between Accounts:						
Transfer In	\$ 1,063,532	\$ -	\$ -	\$ -	\$ -	\$ 1,063,532
Transfer (Out)			(1,063,532)			(1,063,532)
Total Transfers Between Accounts	\$ 1,063,532	\$ -	\$ (1,063,532)	\$ -	\$ -	\$ -
Change in Net Assets	\$ 1,054,688	\$ (5,610,444)	\$ (1,033,896)	\$ 3,140,232	\$ (1,549,553)	\$ (3,998,973)
Total Net Assets - Beginning		95,956,516	2,798,204	18,272,291	11,431,253	128,458,264
Total Net Assets - Ending	\$ 1,054,688	\$ 90,346,072	\$ 1,764,308	\$ 21,412,523	\$ 9,881,700	\$ 124,459,291

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF CASH FLOWS BY ACCOUNTS  
ENTERPRISE FUND  
YEAR ENDED JUNE 30, 2004

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
<u>Cash Flows from Operating Activities:</u>						
Receipts from Borrowers and U.S. Department of Education	\$ 32,588,489	\$	\$	\$ 6,791,926	\$ 408,699	\$ 39,789,114
Receipts from SCSLC services provided		28,580,679	3,712,250			32,292,929
Payments to Suppliers, Lenders and Borrowers		(38,087,210)	(877,702)	(1,204,984)	(1,612,283)	(41,782,179)
Payments to Employees				(2,874,856)		(2,874,856)
Net Cash Provided by (Used in) Operating Activities	\$ 32,588,489	\$ (9,506,531)	\$ 2,834,548	\$ 2,712,086	\$ (1,203,584)	\$ 27,425,008
<u>Cash Flows from Non-Capital Financing Activities:</u>						
Finance Loan Advances to South Carolina Student Loan Corporation for						
Student Loan	\$	\$ (557,000,000)	\$ (91,162,256)	\$	\$	\$ (648,162,256)
Finance Loan Payments Received from South Carolina Student Loan						
Corporation		384,852,305	833,333			385,685,638
Arbitrage Paid		(496,696)				(496,696)
Proceeds from Issuing Revenue Refunding Bonds for Student Loans			100,150,000			100,150,000
Payment on Bonds Payable		(13,750,000)				(13,750,000)
Costs of Bond Issuance Paid from Refunding Bond Proceeds			(570,207)			(570,207)
Operating Transfers:						
In from Other Accounts	1,063,532					1,063,532
Out to Other Accounts						
Interest Paid on Revenue Bonds		(7,469,609)	(1,063,532)			(1,063,532)
Payment of Recall of Federal Reserve Funds			(2,281,508)			(9,751,117)
Net Cash Provided by (Used in) Non-Capital Financing Activities	\$ 1,063,532	\$ (193,864,000)	\$ 5,905,830	\$ -	\$ -	\$ (186,894,638)
<u>Cash Flows from Capital and Related Financing Activities</u>						
Purchase of Capital Assets	\$ -	\$ -	\$ -	\$ (205,749)	\$ -	\$ (205,749)
<u>Cash Flows from Investing Activities:</u>						
Interest Received on Investment Securities	\$ (10,803)	\$ 2,199,749	\$ 337,179	\$ 219,466	\$ 105,006	\$ 2,850,597
Sale of Investments		1,252,178				1,252,178
Net Increase (Decrease) in Fair Value of Investments Reported as						
Cash Equivalents	179	(65,585)		3,397	(34,714)	(96,723)
Net Cash Provided by (Used in) Investing Activities	\$ (10,624)	\$ 3,386,342	\$ 337,179	\$ 222,863	\$ 70,292	\$ 4,006,052
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 33,641,397	\$ (199,984,189)	\$ 9,077,557	\$ 2,729,200	\$ (1,133,292)	\$ (155,669,327)
<u>Cash and Cash Equivalents:</u>						
Beginning		341,522,337	9,802,508	18,094,093	11,591,558	381,010,496
Ending	\$ 33,641,397	\$ 141,538,148	\$ 18,880,065	\$ 20,823,293	\$ 10,458,266	\$ 225,341,169

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF CASH FLOWS BY ACCOUNTS  
ENTERPRISE FUND  
YEAR ENDED JUNE 30, 2004

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
<u>Cash Flows from Operating Activities:</u>						
Operating Income (Loss)	\$ (8,844)	\$ (12,146,472)	\$ 2,120,545	\$ 3,140,232	\$ (1,549,553)	\$ (8,444,092)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used in) Operating Activities:						
Purchase of Student Loans Under Loan Guarantees					(14,142,618)	(14,142,618)
Payments Received from U.S. Department of Education Under Federal Reinsurance Program					14,420,260	14,420,260
Amortization of Deferred Cost of Bond Issuance		94,099	58,862			152,961
Amortization of Deferred Amount of Refunding - Interest Expense		13,174	352,388			365,562
Amortization of Premiums and Discounts on Bonds Payable - Interest Expense		193,084	154,096			347,180
Interest/Investment Income (Investing Activities Category)	9,023	(2,187,964)	(321,517)	(197,901)	32,954	(2,665,405)
Depreciation Expense				65,328	10,631	75,959
Net (Increase) Decrease in Fair Value of Invesmtents (Investing Activities Category)	(179)	65,585		(3,397)	34,714	96,723
Bond Interest Expense (Noncapital Financing Activities Category)		7,179,301	2,623,438			9,802,739
Changes in Assets and Liabilities:						
(Increase) Decrease in Due from South Carolina Student Loan Corporation		158,503	(2,089,667)			(1,931,164)
(Increase) Decrease in Loan Processing Issuance Fee Receivable				56,056		56,056
(Increase) Decrease in Account Maintenance Fee Receivable				(52,806)		(52,806)
(Increase) Decrease in Due from Other Funds	3,155,913	(3,065,353)		114,845	74,317	279,722
(Increase) Decrease in Miscellaneous Receivables		189,512				189,512
Increase (Decrease) in Accounts Payable	99,390		(63,597)	(189,512)	(5,000)	(158,719)
Increase (Decrease) in Compensated Absences Liability				22,114		22,114
Increase (Decrease) in Consolidation Rebate Fee Payable	565,685			(228,326)	(51,396)	565,685
Increase (Decrease) in Due to Other Funds				(14,547)	(27,893)	(279,722)
Increase (Decrease) in Due to South Carolina Student Loan Corporation	28,767,501					28,725,061
Net Cash Provided by (Used in) Operating Activities	\$ 32,588,489	\$ (9,506,531)	\$ 2,834,548	\$ 2,712,086	\$ (1,203,584)	\$ 27,425,008
<u>Supplemental Disclosures of Cash Flow Information:</u>						
Interest Collected on Finance Loans - Operating Activities	\$ -	\$ 4,889,296	\$ -	\$ -	\$ -	\$ 4,889,296
Arbitrage Income (Expense) Incurred and Liability Accrued - Non-Capital Financing Activity	\$ -	\$ 6,536,028	\$ (2,090,909)	\$ -	\$ -	\$ 4,445,119
Principal Amounts of Bonds - Refunded - Non-Capital Financing Activity	\$ -	\$ 8,150,000	\$ -	\$ -	\$ -	\$ 8,150,000
Retirement of Fixed Assets - Capital and Related Financing Activity	\$ -	\$ -	\$ -	\$ 21,911	\$ -	\$ 21,911
Write-off of Accumulated Depreciation Related to Retired Assets - Capital and Related Financing Activity	\$ -	\$ -	\$ -	\$ 21,911	\$ -	\$ 21,911

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF EXPENSES COMPARED TO BUDGET  
YEAR ENDED JUNE 30, 2004

				Variance (Over) Under
<u>Operating Expenses:</u>	<u>Budget</u>	<u>Actual</u>		
Personnel:				
Staff Salaries	\$ 1,976,650	\$ 1,960,481	\$	16,169
Social Security	148,300	141,462		6,838
Group Insurance	368,500	354,417		14,083
Retirement	398,350	209,190		189,160
Retirement - Non-recurring	225,667	225,667		-
Unemployment	5,150	5,753		(603)
Total Personnel	\$ <u>3,122,617</u>	\$ <u>2,896,970</u>	\$	<u>225,647</u>
Contractual:				
Loan Servicing	\$ 286,800	\$ 284,463	\$	2,337
Legal	4,800	924		3,876
Accounting	6,800	6,785		15
Credit Bureau Fees	126,900	130,991		(4,091)
Enrollment Verification	28,800	26,837		1,963
Total Contractual	\$ <u>454,100</u>	\$ <u>450,000</u>	\$	<u>4,100</u>
General Operating:				
Rent	\$ 104,300	\$ 100,427	\$	3,873
Telephone	87,125	85,181		1,944
Printing	73,850	71,501		2,349
Postage	128,700	130,123		(1,423)
Supplies	56,000	56,469		(469)
Travel	44,000	42,513		1,487
Equipment Maintenance	15,300	15,789		(489)
Subscriptions & Fees	23,700	22,732		968
Meeting and Conference Expense	2,000	2,124		(124)
Insurance - General and Automotive	26,000	28,036		(2,036)
Contingencies	25,000	10,061		14,939
Depreciation Expense	60,000	75,959		(15,959)
Total General Operating	\$ <u>645,975</u>	\$ <u>640,915</u>	\$	<u>5,060</u>
Capital Additions:				
Equipment, Furniture and Fixtures	\$ <u>207,050</u>	\$ <u>205,749</u>	\$	<u>1,301</u>
Total Personnel Expenses		\$ 2,896,970		
Total Contractual		450,000		
Total General Operating		640,915		
Total Operating Expenses		\$ <u>3,987,885</u>		
South Carolina Student Loan Corporation Operating Costs		\$ <u>3,901,624</u>		
Other Expenses:				
Interest on Bonds		\$ 9,802,740		
Amortization - Deferred Cost of Bond Issuance		152,961		
Default Aversion Fee Expense		915,929		
Borrower Incentive		15,488,459		
Reinsurance and Other Fees		5,391,862		
Total Other Expenses		\$ <u>31,751,951</u>		
Total Expenses		\$ <u>39,641,460</u>		

SCHEDULE 5

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF ORGANIZATIONAL DATA

YEAR ENDED JUNE 30, 2004

CREATION

Created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the 1976 Code (the "Act"). The Constitutionality of the Act was sustained in Durham vs. McLeod, 259 S.C. 409, 192 E. 2d 202, appeal dismissed 413 U.S. 902.

To make, insure and guarantee student loans; to acquire contingent interest in student loans from eligible banks or other lending institutions (up to 100% of the face amount thereof); to develop and administer all programs and to perform all functions necessary or convenient to promote and facilitate the making, guaranteeing and insuring of student loans and to provide such other student loan assistance and services as the Authority shall deem necessary or desirable and to enable it to qualify for loans, grants, insurance and other benefits and assistance under any program of the United States now or hereafter authorized fostering student loans; to appoint one or more banking institutions as its fiscal agent to perform such functions with respect to student loans and its revenue bonds; to approve as eligible, institutions otherwise qualified as such.

MEMBERS OF THE AUTHORITY

<u>Name</u>	<u>Office Held</u>
Mark Sanford	Governor of South Carolina
Grady L. Patterson, Jr.	State Treasurer of South Carolina
Richard Eckstrom	Comptroller General of South Carolina
Hugh K. Leatherman, Sr.	Chairman, South Carolina Senate Finance Committee
Robert W. Harrell, Jr.	Chairman, South Carolina House of Representatives Ways and Means Committee

## SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount of Grant</u>	<u>Expenses</u>
<u>U.S. Department of Education Programs:</u>			
<u>Federal Family Education Loan Program:</u>			
<u>Direct:</u>			
Loan Processing and Issuance Fee	84.032	\$	1,899,291
Account Maintenance Fee	84.032		2,259,479
Default Aversion Fee Income	84.032		915,929
Retention on Default Collections	84.032		1,968,487
<u>Passed Through South Carolina Student Loan Corporation:</u>			
Special Allowances	84.032		9,662,846
Subsidized Interest	84.032		<u>2,598,123</u>
 Total Federal Family Education Loan Program (Major Program)		\$	 19,304,155
 Paul Douglas Teachers Scholarship Program (Note 4)			 _____
 Total Department of Education		\$	 <u>19,304,155</u>

Notes - CFDA #84.032:

1. The total approved amount at June 30, 2004, of all student loans under guarantee by the South Carolina State Education Assistance Authority was \$4,180,521,330. The total outstanding balance of these loans was \$1,903,061,100. Special Allowances and Subsidized Interest are earned based on outstanding balance. The Account maintenance fee is based on average principal outstanding for the fiscal year for loans serviced. The loan processing and issuance fee is based on loans originated during the fiscal year. The default aversion fee is based on the balance of principal and interest on a loan that was prevented from defaulting.
2. The South Carolina State Education Assistance Authority received \$14,420,260 during the year ended June 30, 2004, under Federal Reinsurance Agreements pursuant to Sections 428A and 428(c) of the Higher Education Act of 1965, as amended.
3. The total value at June 30, 2004, since inception, of all defaulted student loans which the South Carolina State Education Assistance Authority has purchased under Federal reinsurance agreements was \$143,339,523. Retention of Default Collections is generated when the Authority retains a portion of the amount it collects on these loans on behalf of the Federal Government.

Notes - CFDA #84.176:

4. Program participants repaid \$33,661 to the Authority. The Authority owes the Federal Government \$33,661 at June 30, 2004.



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**RSM McGladrey Network**  
An Independently Owned Member

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Authority  
South Carolina State Education Assistance Authority  
Columbia, South Carolina

We have audited the financial statements of the South Carolina State Education Assistance Authority as of and for the year ended June 30, 2004, and have issued our report thereon dated August 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the South Carolina State Education Assistance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the South Carolina State Education Assistance Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Derrick, Stubbs & Stith, LLP*

August 25, 2004





**DERRICK, STUBBS & STITH, L.L.P.**  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Members of the Authority  
South Carolina State Education Assistance Authority  
Columbia, South Carolina

**Compliance**

We have audited the compliance of the South Carolina State Education Assistance Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The South Carolina State Education Assistance Authority's major federal program is identified in the summary of auditors result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the South Carolina State Education Assistance Authority's management. Our responsibility is to express an opinion on the South Carolina State Education Assistance Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the South Carolina State Education Assistance Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the South Carolina State Education Assistance Authority's compliance with those requirements.

In our opinion, the South Carolina State Education Assistance Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

**Internal Control Over Compliance**

The management of the South Carolina State Education Assistance Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the South Carolina State Education Assistance Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the Members of the Authority  
South Carolina State Education Assistance Authority  
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Stulke + Stith, LLP*

August 25, 2004

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004

1. Summary of Auditor's Results:

- |        |  |                 |
|--------|--|-----------------|
| (i)    | Type of report issued on financial statements  | Unqualified     |
| (ii)   | Reportable material weaknesses in internal control over financial reporting                            | None Identified |
| (iii)  | Reportable conditions not considered to be material weaknesses in internal control                     | None Identified |
| (iv)   | Noncompliance material to the financial statements   | None Noted      |
| (v)    | Material weaknesses in internal control over major programs  | None Identified |
| (vi)   | Reportable conditions not considered to be material weaknesses in internal control over major programs | None Identified |
| (vii)  | Type of report issued on compliance for major programs   | Unqualified     |
| (viii) | Audit findings required to be reported under paragraph .510(a) OMB 133                                 | None Disclosed  |

(ix) Identification of major programs:

U.S. Department of Education:

Federal Family Education Loan Program:

Loan Processing and Issuance Fee	CFDA# 84.032	Expenditure \$ 1,899,291
Account Maintenance Fee	84.032	2,259,479
Default Aversion Fee Income	84.032	915,929
Retention on Default Collections	84.032	1,968,487

Passed Through South Carolina Student Loan

Corporation:

Special Allowances	84.032	9,662,846
Subsidized Interest	84.032	<u>2,598,123</u>

Total Federal Family Education Loan

Program (Major Program)

\$ 19,304,155

- |      |  |            |
|------|--|------------|
| (x)  | Dollar threshold used to distinguish between Type A and Type B programs  | \$ 579,125 |
| (xi) | South Carolina State Education Assistance Authority qualifies as a low risk auditee under paragraph .530 OMB 133 | Yes        |

2. Findings related to the financial statements which are required to be reported in accordance with GAGAS

None Reported

3. Findings and questioned costs for Federal awards including audit findings as defined in paragraph .510(a) OMB 133

- |      |   |               |
|------|---|---------------|
| (i)  | Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud) | None Reported |
| (ii) | Audit findings which relate to both the financial statements and Federal awards                   | None Reported |

SCHEDULE 8

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF SUMMARY OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2004

There are no prior audit findings and questioned costs relative to Federal Awards.

SCHEDULE 9

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF CORRECTIVE ACTION PLAN

JUNE 30, 2004

There is no corrective action plan required since there are no prior audit findings and questioned costs relative to Federal Awards.